



Minutes City Council Issue Review Session February 7, 2008

Minutes of the Tempe City Council Issue Review Session held on Thursday, February 7, 2008, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman

Vice Mayor Hut Hutson

Councilmember P. Ben Arredondo

Councilmember Barbara J. Carter

Councilmember Shana Ellis

Councilmember Mark W. Mitchell

Councilmember Onnie Shekerjian

Mayor Hallman called the meeting to order at 6:02 p.m.

Call to the Audience

No one came forward to speak.

CIP Budget Work Session

INFORMATIONAL BACKGROUND available in City Clerk's Office.

City Manager Charlie Meyer summarized that the process tonight will kick off the Capital Improvement Program (CIP) for the City. This discussion is starting six weeks ahead of last year to give the Council and the community the additional time to look at the CIP, understand it, understand the financing of it, and come to decisions. In the late March/early April timeframe, staff expects to return to Council and go through the process of setting priorities and making decisions. Tonight, staff is particularly interested in receiving feedback from Council regarding additional information, formatting that would help you understand, etc. Council has been provided with narratives and the department managers will provide brief statements. They will not be overviews, but are intended to be the strategy that underlies the capital projects they are proposing. Staff is also looking at categorizing the strategies into groupings of preservation of infrastructure, economic development, environmental projects, neighborhood preservation, etc. Decisions don't need to be made tonight but staff needs feedback regarding desired information so we can do a better job in presenting the information to Council.

Financial Services Manager Jerry Hart outlined the first three pages of the 2008-09 CIP Project Descriptions booklet:

- Total Requested 2008-09 through 2012-13 5-Year Capital Improvement Program
 - Total amount of the requests submitted to Financial Services for Council's consideration over the five-year period totals just under \$611M.
- Total Funded 2008-09 5-Year Capital Improvement Program
 - Indicates funded programs and does not suggest any recommendation from staff as to what projects should or should not be funded. This simply represents projects that are in the current 5-year plan that was adopted last budget cycle. It assumes that same plan.
- Total Unfunded 2008-09 5-Year Capital Improvement Program
 - Reflects unfunded projects, simply two components. First, when some of the projects in the current 5-year plan were resubmitted this year, the requests for funding increased. To the extent the funding request has increased, the difference is reflected on this page. This page also reflects any new projects that were submitted for the first time in this budget process.

Water Utilities Manager Don Hawkes summarized that the Water Utilities Department's CIP is driven by three things: regulations, growth, and aging infrastructure. The strategy for developing their CIP is three-fold. First, they must meet all federal, state and county water quality regulations. Second, they need to provide timely infrastructure improvements to sustain the growth areas in Tempe. Third, they need to systematically replace the infrastructure that has reached or exceeded its useful life. He highlighted two projects that resulted from this strategy.

- Johnny G. Martinez Water Treatment Plant (JGMWTP) Water Quality Upgrades (Funded Program 2008-09, page 1; Unfunded Program 2008-09, page 2)
Federal regulations that take effect in 2012 make this project the top priority. The requirements of the new regulations cannot be met without additional changes to the treatment process.
- Southern Avenue Interceptor (SAI) Rehabilitation (Funded Program 2008-09, page 49; Unfunded Program 2008-09, page 50)
In the area of aging infrastructure, the rehabilitation of the SAI is a top priority. This important sewer line conveys wastewater from Mesa and Tempe to the 91st Avenue Wastewater Treatment Plant. This multiphase project uses cured-in-place lining - technology that will provide a new 50+ year life using the existing pipe, and limited disruptions to traffic and businesses. Mesa will pay their proportionate share of that project; water and wastewater rates will need to be adjusted to raise the funds to pay for this proposed CIP. Staff will come before Council in the early summer with recommendations for rate adjustments. All neighboring cities are faced with similar pressures and they are all raising their rates. Even with the necessary adjustments to fund this program, staff anticipates Tempe will remain the low cost leader for utility rates.

Mayor Hallman clarified that the water and wastewater utilities are run only based on the fees they collect. They are not based on general fund or other sources of financing, but are self-financing, and they must pay for their operations.

Public Works Manager Glenn Kephart summarized that Public Works' projects are for the intent of taking care of what we have, which includes maintenance projects to care for over ninety City facilities. The streets maintenance program has a large group of projects for the rehabilitation of streets, sidewalks and traffic signal systems. All of those are funded out of the CIP. Staff is asking to do this year what has been historically done to maintain the City's infrastructure to an appropriate level. Some projects have also been included which are intended to enhance infrastructure, such as multi-use paths, streetscape improvements, and signal communication improvements that will allow us to improve our traffic flow and communication for our traffic engineers. He highlighted three projects:

- City Hall/Municipal Complex Renovation (General Governmental – Unfunded Program 2008-09, page 192)
This facility has reached an age where major repairs will be needed. Staff has requested design money (\$450K) to determine the magnitude of repairs beyond basic maintenance. In future years, appropriate construction money is shown to keep this facility in high-functioning condition.
- Park Storm Drain and Grading Modifications (Unfunded Program 2008-90, page 162)
This is a unique project in conjunction with the Parks Master Plan and renovation of the parks. There is an opportunity to build additional storm water retention capacity into those parks which could help alleviate local neighborhood flooding during extreme weather events.
- Bus Fleet Replacements (Funded Program 2008-09, page 69, and Unfunded Program 2008-90, page 70)
The bus fleet is nearing the end of its designed twelve-year life (600K miles per bus). As part of a federal program, buses are eligible after twelve years to be replaced using federal grants. This project would be 97% funded through federal grants and regional transportation tax. Staff is still working to secure those grants.

Mayor Hallman clarified that there is \$6M, and \$15.6M in the next year on the funded side, and then \$23.6M and \$3.4 on the unfunded side. Do the grants fall under the unfunded side?

Mr. Kephart responded that it is a mix of both. The previous CIP did not include a replacement this large, so at two years out from the twelve-year lead time, it is time to begin this process.

Mayor Hallman added that this would come out of the segregated transit tax if it is not funded by grants.

Mr. Kephart clarified that 97% is planned to be funded by grants and staff still needs to work to secure those grants.

Community Development Manager Chris Salomone summarized that the projects he will discuss are under the Rio Salado on page 94. The strategy undertaken in Rio Salado is to select projects that will continue the completion of the public facilities around the Lake and that will contribute to the economic development of the adjacent parcel. Complementing that strategy is staff's intention to leverage other non-City funding sources that accompany these projects:

- Tempe Town Lake Pedestrian Bridge (Funded Program 2008-09, page 94)
This project is approaching completion of construction drawings. It is a total project of \$6.62M. The local match is \$1.7M, and the balance of \$4.1M is federal funding. The intent would be to complete the bridge which could be under construction in this calendar year.
- Town Lake Dam Replacement (Funded Program 2008-09, page 94)
There is an alternative funding source, but in this calendar year, it is staff's intent to come back to Council with results of testing of the existing bladder dams. They are approaching the end of their warranty life, and staff will propose an alternative solution.
- Rio East Park (Unfunded Program 2008-09, page 95)
This park joins between Rural and McClintock. It goes in front of the Rio East project (the Pier project) and it will complete the park section and will accompany that project. The Pier will contribute \$1.5M to the \$4.1M project, and the City's share will be \$2.6M.
- US Army Corps Match Money (Unfunded Program 2008-09, page 95)
This is to leverage other money. We were going to do a third Army Corps habitat project east of the east bladder dam, but that opportunity has gone away. The Army Corps has agreed to create a path system in lieu of the habitat that will run all the way to the Tempe Marketplace to connect with the Lake, across McClintock and back down the north shore. The City's match for this project is \$463K.

Mayor Hallman clarified that the original \$1.38M was for the original habitat. Since that can't happen now, we are going to do a different program which reduces the City's match to \$463K.

Police Chief Tom Ryff summarized that over the past year, the Police Department has been going through a significant reorganization. One of the areas of reorganization will ensure that we have the appropriate technology in place for the Police Department to provide future services. Director Brenda Buren presented the projects.

Brenda Buren summarized that there are two components. The first is the technology piece.

- Radio System Replacement (Funded Program 2008-09, page 123; Unfunded Program 2008-09, page 124)
This has been a project over the past three years and changes out the current analog standalone radio system to the interoperable digital radio system. The project is moving forward well. Staff found out last week that \$680K of additional federal funding was received for this, so that will reduce the amount shown. This project has been funded at about 50% through grants.
- Laptop Replacement Project (Funded Program 2008-09, page 123; Unfunded Program 2008-09, page 124)
All officers have laptops in the field and the laptops need to be replaced every year. It is part of the capital budget because all of the infrastructure and docking stations have to be replaced at the same

time.

- Technology Integrated Police Systems (TIPS) Project (Funded Program 2008-09, page 123; Unfunded Program 2008-09, page 124)
This is an ongoing technology project. The significance this year is that this incorporates COPLINK, which is a regional web-based data sharing tool with other law enforcement agencies, and they are hoping to have wireless capabilities in all police vehicles.
- Central City Facility Project (Unfunded Program, page 124)
A new facility in the downtown area would locate the Central City Bureau and the equestrian area, as well as provide space for training. This is a long-term project, added into the fourth year.

Chief Ryff added that part of the reorganization in the future is to look at redistricting the command within the City for a north command, central command and a south command. One of the issues is to make sure they have appropriate resources and staffing north of the Lake. It is not only good to service the downtown area but also the residents of north Tempe.

Fire Chief Cliff Jones summarized that the mission of the Fire Department is to provide for the safety and welfare of the public through preservation of life, health, safety and the environment. The CIP is an important component of maintaining a modern fire department and preparing it for the future. The following projects address emergency service delivery to our citizens, the safety and welfare of our firefighters, and the maintenance and reliability of fire apparatus.

- Fire Station #7 (Funded Program 2008-09, page 141)
This station which would be located in the southeast quadrant of the City is part of a three-phase fire station relocation plan presented to City Council in 1990. The station was planned in 1990 to be a phased project over many years. The station is critical to maintain commensurate levels of service capability throughout the community. Currently, there is only one "first-do" fire company for almost 40% of the City.
- Radio Replacement for Conversion to 800MHz (Funded Program 2008-09, page 141)
This has been a long duration project and the primary reason is that 23 Valley fire departments come on to the same radio system at basically the same time. This will be done in two phases. The first phase is about six months away and phase two would be about two years away.
- New Support Services Facility (Funded Program 2008-09, page 141; Unfunded Program 2008-09, page 142)
This requests additional funding due to increases in construction costs for an already-approved project. Support services is comprised of fire apparatus maintenance shop, self-contained breathing apparatus, emergency equipment maintenance, and the fire department warehouse. The current facility was built in 1988, and is inadequate both in size and capability.
- Fire Station #2 (Funded Program 2008-09, page 141; Unfunded Program 2008-09, page 142)

This station is on Hardy Drive, north of Southern, and additional funds are requested due to increases in construction costs. This project would result in a 4-bay fire station on the property of the existing fire station and the support services facility on South Hardy Drive. Several improvements have been made to the building, but it is clearly inadequate, both in size for fire apparatus equipment and personnel.

Mayor Hallman clarified that Fire Station #2 and the Support Services Facility on the funded list have had increased costs of construction and the delta amount is shown on the unfunded pages.

Parks and Recreation Manager Mark Richwine requested continuation of funding for many vitally important projects that continue Tempe's reinvestment into its public park, open space and recreation facility infrastructure.

- Park Renovation and Restoration (Funded Program 2008-09, page 165; Unfunded Program 2008-09, page 166)
This program was begun last year and involves the renovation of three neighborhood parks on an annual basis, the renovation and ADA upgrades to various park restrooms, the replacement of the water play features at Escalante Pool, the renovations to the Kiwanis Recreation Center, the replacement of the Kiwanis Recreation Wave equipment, and the potential renovation and replacement of Clark Park Pool. Concerning the potential renovation and replacement of Clark Pool, Council gave clear direction last year to work closely with the neighborhood to identify their desires regarding a facility at Clark Park. Staff has begun that process, and the service of a design team has been retained to work with staff on the master planning process, but until that is complete, staff will not know the extent of the neighborhood's request. There are a number of smaller requests included in their request and they represent the continuation of funding for the reinvestment into the various facilities.

Community Services Manager Tom Canasi summarized that Community Services is involved in quality of life services throughout Tempe. Participation is high throughout the programs, whether Library, Social Services, or Cultural Services.

- Edna Vihel Center (Unfunded Program 2008-09, page 192)
Council has already made a significant commitment to the Community Cultural Complex on Rural and Southern. At that complex, three buildings have been aging. Council has dedicated funds to enhance the Museum and that project is currently under design and will begin construction this fall. As part of last year's budget, Council dedicated funds to begin Library improvement, both through technology and redefinition. Staff will come to Council in March to request approval of an architect to continue design. The third facility on that complex, the Edna Vihel Center, was built in 1970. Since that point, that facility has had no significant renovation. The facility needs HVAC system replacement, lighting, ceilings, doors, windows, as well as a redefinition of internal space, restrooms and ADA issues. Staff will also recommend a small expansion to provide community space. That would complete the improvements of the facilities on that campus and help move Tempe into having a campus of culture that all citizens will continue to use.

Development Services Manager Chris Anaradian summarized that Council has been supportive of the reforms

in Development Services over the last two years, placing customer service first. Hallmarks of that reform have been improvement in timeliness, accuracy and transparency in all aspects of the department. The department has reached a point in the reforms where technology, more than people and services at this point, impedes further improvements.

- Development Services Technology Modernization (Unfunded Program 2008-09, page 192)
The recent assessment of the department confirmed that the customers continue to point that our technology is where we are losing our competitive edge going forward. This is not about new computers or hardware, but is about staff being able to conduct business on line, take plans in electronically, and process and archive what we do electronically. A correct title would be "Value Magnifier." It takes the human and process improvements that have been made and enables the department to magnify those through technology. In the short term and going forward in the long term, there are operational savings that can be realized by eliminating many of the practices currently in place.

Mayor Hallman clarified that by making a capital investment, there might be savings on the O&M side.

Mr. Anaradian continued that it reduces waste, eliminates opportunities for errors, and increases the accountability of our own systems. This is one way we can bring our systems in line with our philosophy of sustainable operations. December saw a \$10M increase in permit valuation, and the previous December saw a \$90M increase in permit valuation. The business community developers continue to invest in Tempe and we will get the work done. This is just one of the strategies. It is a very important one because this solution goes back to the department's philosophy of timeliness, accuracy and transparency.

Information Technology Manager Gene Obis summarized that all of the departments making a presentation this evening, as well as those that didn't, rely heavily on modern technology to get their jobs done. Tempe is in the midst of the information age and reliable technology is one component that helps make Tempe the place to be. All of the systems in place throughout the City organization require proper administration and maintenance. The requests submitted by Information Technology are directly related to the use of various systems by other departments. The department's job is to support those departments by providing the best cost-effective technology available to meet their specific needs and keep those systems running 24/7, 365. The following requests are specifically related to ensuring it has adequate resources to support the front-line departments.

- Enterprise Network File Storage and Archival (Unfunded Program 2008-09, page 192)
This will ensure enough electronic storage space to continue supporting the needs of areas such as Police records, Police evidence, City Clerk, and Development Services. Without this resource enhancement, their systems will suffer severe degradation over the course of the next fiscal year.
- Enterprise Geographic Information System (Unfunded Program 2008-09, page 2)
Continuation for the Enterprise Geographic Information System will directly benefit the Police and Fire Departments, Development Services, Community Development, Customer Service, Emergency Operation Center, Tax and License, and Economic Development.

Mayor Hallman clarified that the funding of this would be funded out of Water Utilities Department.

Mayor Hallman summarized that staff desired to bring this to Council six weeks earlier than last year so Council could understand the projects and analyze them before starting the process in earnest.

Charlie Meyer added that one of staff's primary roles in addition to making recommendations is to make sure Council understands both the financing side of the capital program, as well as what projects are being undertaken and what good they are doing for the community.

Councilmember Ellis asked for clarification from Mr. Hart that any new project was put under "unfunded." If it was discussed last year, and Council decided to fund it last year, it is in "funded."

Mr. Hart confirmed that and added that if it was a project that was brought forward last year, but was not funded by Council, it continues on the unfunded list this year.

Councilmember Ellis asked Mr. Meyer what kinds of parameters were given to the departments when they put together their priority list.

Mr. Meyer responded that department managers were asked to tell him what they believe to be the needs of the community. He did not, at that point, ask for the most important priorities. We can't fund everything, but it is important to get them all out there and then we can make a decision.

Councilmember Ellis clarified that no money values were placed.

Mr. Meyer agreed.

Councilmember Arredondo stated that he would like an opportunity to visit with department heads on specific questions.

Mr. Meyer responded that he would welcome Councilmembers contacting department managers. Sometimes the questions would be of interest to others, and department managers will meet and discuss the questions to see how we can come back and present priorities to Council.

Councilmember Shekerjian suggested that if Councilmembers have an idea about how this information could be presented differently, they could let him know.

Mr. Meyer agreed. In terms of how to present the information or in terms of the revenue side, he or Mr. Hart would be the ones to contact. In some cases, the operating department manager actually may have a better understanding, but with formatting ideas, he is looking for constructive criticism. This is a very complex financing package, and he would like to return and present it in a way that is understandable.

Councilmember Carter noted that Chief Jones cited increased construction costs for Fire Station #2 and the

Support Services Facility, yet she didn't see any for Fire Station #7.

Mayor Hallman clarified that Fire Station #7 shows it is fully funded in 2008-09, but Fire Station #2 has cost increases that have to be dealt with showing on the unfunded list.

Chief Jones responded that because it was earlier in the process, staff had the opportunity to adjust Fire Station #7 last year.

Mayor Hallman added that he didn't want to see staff produce another round of all of the CIP documentation. We know what the specifics are in the projects and we can look back. The spreadsheet will get moved around as we go through the process. It would help him, to not only have the cost of the projects and how they have been prioritized, but also the funding sources. It is confusing to have apples and oranges treatment. If a project costs \$7M, and we're going to get \$6M from federal funds, it shouldn't reduce the cost shown to \$1M. It should show \$7M, with an indicator of the source of funding. It is no different from some things on this list that have specific funding sources, like the Water Department, with things paid out of water and sewer fees. In some instances, for example, the Rio Salado Foundation, who will be the revenue source, is a third party, and yet we show the entire cost of items. For example, on the unfunded list, it shows the Town Lake Boathouse. As that project comes forward, we are working with third party partners if and to the extent it will get funded. There are things we have designated funds for, such as the cost on the Town Lake Pedestrian Bridge. The federal funds should be shown on here. There are also sources of funds again from the Rio Salado Foundation and the Foundation is the dedicated sourcing and will cover some of those costs. The dam replacement shows as funded here at \$14.1M, but we have set aside a sinking fund that has that cash flow coming in. Is this why this is showing as funded at \$14.1M?

Mr. Hart responded that was correct.

Mayor Hallman clarified that staff is anticipating the flows of cash coming from the aforementioned stream of income.

Mr. Hart responded that is the way the funding source is identified in the current 5-year plan.

Mayor Hallman asked if it is designated as "net present value." We set aside \$10M for one purpose, which was to settle a lawsuit, but in exchange for settlement, we have a cash flow coming in from a project that has to go in a sinking fund. Obviously, \$14.1M isn't coming in one year. He suggested showing the sources of those funds coming in. Although the fund may be spent in one year, the sources of funds are carried over 10 years, for example.

Mr. Hart agreed.

Mayor Hallman asked if we actually went out for bids or did we come up with what the replacement of the dam would be. He used to say \$15M and now it is up to \$22M.

Mr. Hart responded that it was his understanding that their estimate for that has changed as Mr. Salomone

explained. When this project was brought forward last year, the idea was to simply replace the rubber bladders, but now they are considering other alternatives.

Mr. Salomone added that was a ballpark figure. The manufacturer no longer manufactures the bladders, so staff is in the process of looking at alternatives.

Mayor Hallman clarified that Bridgestone sold us dams that were to last for twenty years, but were warranted for ten years, and now they are not going to manufacture replacements.

Mr. Salomone agreed. He would like to return to Council mid year after testing the current dams for their useful life and coming up with the alternative replacement types of dams. That's why the number is not specific.

Mayor Hallman directed staff to show both cost as well as funding sources on the final spreadsheets. Some of this is funded, for example, out of an enterprise fund. Water/Wastewater is funded out of an enterprise fund. So that the public has a better understanding, staff should give some thought to showing where some of that money comes from. He also encouraged staff to identify the other sources. The sinking fund we have established is one source of capital. We invested into one settlement and got back for that a return to the community. We have done the same thing with the Peabody Hotel property. Council made the decision to do a very different approach, and that was to put it up for sale and not take all the cash but receive payments over time. The first payment on the principal was \$8M last year. We have a balance carried forward that a deferred payment fee is charged against and we now have O&M money coming in that can go into the general fund. Those other sources should be available for the community to understand. This is a very different process than the City used to go through. Department Managers were told to come forward only with the things that they could fund and Council would get a list of projects and make decisions. Council would move them around based on timing, but not much else. This Council has a very different process. Everything comes forward. All the hopes and dreams go into the CIP and O&M budget; that gives a much more transparent process for the community. Council then sets the priorities. That is not to say Council does not want the staff's recommendations. In fact, it is very helpful to be informed of what the staff and department heads think are the right priorities based on needs, wants, and all other considerations.

Councilmember Carter asked about the Ad Hoc Long Range Budget and Finance Planning Committee. She asked how that will dovetail with these discussions and when that is going to take place.

Mayor Hallman clarified that this process is for capital. On the O&M side, we have a projected deficit of \$12M for next year and \$17M the year after. The question is how to reduce the budget. That ad hoc committee has been put together to go through the operating budget, line by line. Most organizations start with an operating budget that is a base budget. It's what we have already approved in prior years and how it goes forward. Typically organizations like this take that for granted. We then look at what supplementals or changes in expenditures would be added to that budget. When there is a shortfall in revenues, you need to look at changes in the underlying budget. The ad hoc committee's process is to use the City employee groups and the employees they represent to look at that base budget, line by line, to understand what is already in that budget. In 2001-2002, what happened in the O&M budget was merely coming forward with no supplementals. In this instance, we are trying to provide some insight into that operating base budget and move recommendations

back to Council that will dovetail with the O&M budget discussions that will start up after this CIP.

Councilmember Carter noted that she had heard some comments from department managers and they are so thankful the way Mr. Meyer has dealt with this entire process.

Mr. Meyer responded that he has been meeting with staff, trying to strategize this together. Individually, there are a lot of important projects and needs out there, but based on the amount of requests we have, we have to think it through. With the operating budget, one of the criteria we're looking at is what operating impacts are resulting from a particular capital project. In consideration for Council setting its own priorities, Council might give slightly higher priority to a capital project that doesn't have an adverse operating cost, or Council may decide that operating cost is worth incurring. For instance, the fire station is a capital project, and several million dollars could be spent on a fire station, but there are considerable operating costs. In contrast, a dam replacement has minimal or no operating costs. That's the type of thing we will look at as a staff and try to recommend to Council ways to look at setting priorities.

Mayor Hallman added that in conversations about the Apache Boulevard substation, the capital dollars to build it several years ago were available, but we didn't have the operations money to staff it and run it. The same was true with the North Tempe Multigenerational Center. In that instance we ultimately created partnerships that offloaded a lot of operating cost.

Councilmember Shekerjian asked Mr. Meyer to briefly go over what the process is from here. When will it come back to Council for discussion.

Mr. Meyer responded that March 20th will be the next presentation to Council. At that point, staff would want to be talking about criteria for setting priorities and also the formatting of the information. The challenge is that in order for it to be clear, there can't be too much information there, and if we cut out a lot of information, it will be less than complete.

Councilmember Shekerjian asked when it needs to be ultimately approved.

Mayor Hallman stated that tentative adoption is May 22nd. Final adoption would be June 12th.

CONSENSUS

- Show cost of projects as well as sources of funds on final roll-up spread sheet format.
- Identify other sources of funds.

Follow-up responsibility: Charlie Meyer, Jerry Hart

Formal Council Agenda Items

No agenda items were discussed.

Future Agenda Items

None.

Mayor's Announcements/Manager's Announcements

None.

Meeting adjourned at 7:08 p.m.

Jan Hort
City Clerk